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**PRIVATE PENSION PLANS:
WHICH WAY ARE THEY HEADED?**

A PAPER

BY THE

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FOR THE

CHAIRMAN

OF THE

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LETTER OF TRANSMITTAL

SELECT COMMITTEE ON AGING,
U.S. HOUSE OF REPRESENTATIVES.

To Members of the Select Committee on Aging:

Transmitted herewith is a paper prepared by the Congressional Research Service of the Library of Congress at the request of the Chairman of the Select Committee on Aging. The study is entitled Private Pension Plans: Which Way Are They Headed?

There has been a growing trend among companies to adopt defined contribution rather than defined benefit pension plans.

This paper explains:

1. The relative advantages of each type of plan,
2. Examines the pension regulatory framework of the Federal agencies,
3. Analyzes the trends in pension plan formations and terminations,
4. Provides statistical information on the role of each type of plan in providing retirement income and
5. Discusses certain underlying public policy issues.

This paper should assist Members and the public in determining the distinct differences in the mechanics of the two types of plans and the trends affecting the formation and maintenance of these retirement benefit programs.

EDWARD R. ROYBAL,
Chairman.

(III)

FOREWORD

Recently the issue of the formation and development of defined-benefit versus defined-contribution plans has been much discussed. Some expert pension commentators suggest that defined contribution pension plans should serve only to supplement defined benefit plans; others say that defined benefit plans are anachronisms that offer little benefit in today's mobile work force.

SUMMARY

The principal purpose of a private pension plan is to provide a retirement income which, together with Social Security and personal savings, will provide a retired worker with an adequate income in his or her retirement years. Adequacy can be thought of in terms of enabling the retired worker to maintain a standard of living similar to that which was enjoyed before retirement.

Defined benefit pension plans generally provide an income that continues as long as the participant lives. In some instances it provides joint and survivor benefits that assure continuance of the pension for the lifetime of the retired worker's spouse. One of the advantages of a defined benefit plan is that it can provide past service credit for work performed before the establishment of the plan, and can be altered to meet the pension objectives of an employer.

A defined contribution plan is essentially a savings plan; it provides a specific employer contribution to each participant's individual account, such as 10 percent of pay. Each account is credited with its share of investment return, including any increases or decreases in the market value of the underlying investments. The advantage of a defined contribution plan is that it is simpler for employers—the employer knows what the pension obligation is and, by the very nature of the plan, the benefits are fully funded at the time the contribution is made.

Defined benefit plans are heralded on the grounds that the sponsoring employer provides a specified pension benefit, generally based upon years of service with the employer and some component of salary such as final pay of an employee. Also, the employer bears the risk of investment performance. Some companies sponsoring defined benefit plans are now benefitting from enhanced investment performance and market conditions. The resulting "overfunding" of certain defined benefit plans (i.e., more assets than liabilities in the plan on a termination measurement basis) has contributed to a new trend, the termination of an overfunded pension plan by an employer to recover "excess" plan assets. How extensive is this trend? It is growing geometrically.

Where did all the excess money come from? A number of factors have contributed to this increase:

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- (1) Higher interest rates, which have provided a better than expected return on assets;
- (2) The increase in the market value of stocks in pension portfolios; and
- (3) Recession-induced layoffs, which create smaller employee populations for some firms.

The growth in the number of overfunded pension plan terminations has had a tremendous impact on the benefit security of millions of American workers. This trend of terminations may also have an impact on the increased use of defined contribution arrangements.

This paper has found that defined contribution plans have been growing at a remarkable rate. Assets in these plans are expected to grow at a faster rate than in defined benefit plans. While defined contribution plans accounted for about 28 percent of all pension assets in 1983, they are expected to account for about 35 percent of all assets in the year 2000, according to the Department of Labor. From an employee's perspective, defined benefit plans reward long service workers who remain with the same company for the bulk of their careers. Moreover, the security of the American worker, who is under a defined benefit arrangement is generally, better assured than under a defined contribution plan.

CONCLUSION

This paper recognizes that most of the growth in defined contribution plans has been with plans that supplement a basic defined benefit plan already offered by an employer. About 60 percent of the active pension plan participants are covered by defined benefit plans alone. An additional 26 percent are covered by a defined benefit and one or more supplemental defined contribution plans. This leaves a little over 13 percent of active pension plan participants who rely solely on a defined contribution plan as the principal source of pension income. Currently over 70 percent of the assets in defined contribution plans are estimated to be in plans that supplement defined benefit plans. While defined contribution plans grow in importance, defined benefit plans remain the mainstay of the private pension system.

The future direction of private pension plans will be strongly shaped by tax policy and the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). The Treasury Department has proposed in its 1984 Tax Reform Proposal to the President to eliminate the current 401(k) provisions in favor of an expanded Individual Retirement Account (IRA) program. Moreover, the Treasury Department proposes to establish consistent and uniform policy that will apply to all retirement plans. Currently, the tax treatment of both contributions to retirement plans and subsequent distributions is different depending upon the particular type of plan.

It is clear, however that defined benefit plans play a major role in meeting the retirement income needs of millions of American workers, and that no other type of private retirement program can fill this need as well.

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PRIVATE PENSION PLANS: WHICH WAY ARE THEY HEADED?

I. INTRODUCTION

Concern has been expressed recently about the apparent trend among companies to adopt defined *contribution* rather than defined *benefit* plans. Most pension specialists believe that defined contribution plans offer less retirement income security to long-term employees, although these plans possess certain advantages for short-term, mobile, and younger employees. Critics suggest that the rules, regulations, and complexities of the Employees Retirement Income Security Act of 1974 (ERISA) and subsequent amendments provide disincentives for companies to adopt defined benefit plans, and that recent changes in the tax provide increased incentives for companies to adopt defined contribution plans.

Defined contribution plans are coming under attack as not being "True" pension plans. They are being labeled as "capital accumulation" plans—essentially tax-sheltered savings plans. Some suggest that increased reliance on defined contribution plans as a primary source of retirement income may be undesirable for two reasons. First, employees participating in defined contribution plans bear the risk (and reward) of investment performance. Second, money accumulated in their individual accounts may be used for purposes other than retirement income. Account balances are often furnished to employees in a lump sum when they leave their jobs rather than paid in a lifetime stream of retirement income.

On the other hand, some employees and employers find defined contribution plans attractive. In addition to plan simplicity, defined contribution plans generally offer more rapid accrual of benefits and faster vesting schedules. As a result, these plans, are superior to defined benefit plans in providing portable benefits.

This paper (1) explains the relative advantages of each type of plan, (2) examines the pension regulatory framework, (3) analyzes the trends in plan formations and terminations, (4) provides statistical information on the role each plays in providing retirement income, and (5) discusses the underlying public policy issues. The paper concludes that while defined contribution plans are indeed growing in importance, defined benefit plans are still the mainstay of the private pension system. Growth in the defined contribution area comes largely from plans that supplement an existing defined benefit arrangement.

II. DEFINED BENEFIT VS. DEFINED CONTRIBUTION

In adopting a pension plan an employer may choose a defined benefit plan, a defined contribution plan, or both. Each plan has certain advantages and disadvantages to both the employer and the employee. While there are distinct differences in the mechanics of the two types of plans, it is problematical whether one type is clearly best suited for all workers. Here is how the two plans work.

A. DEFINED BENEFIT PLAN

A defined benefit plan provides a retirement benefit formula for computing the actual amount of the pension. For example, a defined benefit plan may provide a monthly pension at age 65 equal to \$10 multiplied by the participant's years of service. This is referred to as a "dollar benefit" plan. A worker in this case with 30 years' service would receive a monthly pension of \$300.

Another type of defined benefit plan is based on such factors as salary and years of service. It may provide a monthly pension equal to one percent of average salary during the last five years of employment, multiplied by the number of years of service. A worker with 30 years' service would receive a pension equal to 30 percent of final average salary. This is referred to as an "earnings-related" plan.

In setting up a defined benefit plan an employer establishes a tax-exempt trust fund into which contributions are made and invested in amounts estimated to be sufficient to provide the plan's benefits. Most corporate defined benefit plans are insured through premiums paid to the Pension Benefit Guaranty Corporation (PBGC), a non profit government corporation. Because defined benefit plans are essentially a "promise to pay" specified benefits, they are subject to certain requirements that do not apply to defined contribution plans.

A distinct advantage of a defined benefit plan is that it can provide past service credit for work performed before the establishment of the plan, and can be altered to meet the pension objectives of an employer. Benefits can also be tied directly to preretirement earnings—an important measure of adequacy. Benefits are predictable, and employees easily understand the concept if not the actual operation of the formula. Plan administrators have little difficulty specifying the accrued benefit values and expected benefits at retirement. Employees are therefore in a position to plan rationally and confidently for their retirement income. Benefits for most employees usually vest after completion of 10 years of service.

While defined benefit plans are heralded on the grounds that the sponsoring employer bears the risk of investment performance, some companies sponsoring these plans are now benefitting from investment performance and market conditions. A number of com-

panies now find themselves with more assets in their pension plans than are needed to pay vested benefits. The only way they can recapture the excess assets quickly is to terminate the plan. The total amount of such asset reversions in 1981 to 1984 reached \$4 billion.¹

This situation has resulted from a combination of things: (1) the 1982-1983 stock and bond market rallies increased the value of pension assets; (2) high interest rates have pushed down the price of buying annuities to discharge the pension obligations for participants in terminated plans; and (3) recession-induced layoffs have reduced accrued pension liabilities. Some companies now have millions of dollars more in their pension funds than they need to meet their obligations.

B. DEFINED CONTRIBUTION PLAN

A defined contribution plan is essentially a savings plan; it provides a specific employer contribution to each participant's individual account, such as 10 percent of pay. Each account also is credited with its share of investment return, including any increases or decreases in the market value of the underlying investments. Examples include profit-sharing plans, thrift (savings) plans, and 401(k) plans which offer employees the choice of receiving compensation currently or deferring it (usually along with an employer matching contribution). The pension at retirement is based on the amount accumulated in the individual's account. It may be paid in a lump sum, a life annuity, or a series of installments until the account is exhausted. The advantage of a defined contribution plan is that it is simpler for employers—the employer knows what the pension obligation is and, by the very nature of the plan, the benefits are fully funded at the time the contribution is made. The disadvantage is that the employee bears the risk of variable market performance—benefitting from favorable markets and losing from unfavorable markets. As a result, the ultimate benefit to be received cannot be prescribed with certainty.

While defined benefit plans are broadly hailed as the best vehicle for providing retirement benefits to long service employees, defined contribution plans possess certain advantages to short-term, mobile and younger employees. A defined contribution plan that contributes a level percentage of pay over an employee's working lifetime will accrue retirement benefits faster in the employee's early years than a comparable defined benefit plan. In addition to more rapid benefit accrual, defined contribution plans usually have more rapid vesting schedules and pay death and disability benefits at any point in the employee's working lifetime, rather than only upon satisfaction of certain age and service requirements. Given a defined benefit and a defined contribution plan designed to deliver the same amount of retirement benefits (if basic assumptions are realized), the defined contribution plan will pay out more in benefits for stopping work before normal retirement age. Because of their faster accrual of benefits and faster vesting, defined contribu-

¹ For a more complete discussion see "Reversion of defined benefit pension plan assets to the employer: policy, practice, and implications" [by] Carmen D. Solomon, Congressional Research Service, October 18, 1984.

tion plans surpass defined benefit plan in providing *portable* benefits.²

An employer can adopt either type of plan or both. Many companies have defined contribution plans to supplement the benefits provided under the defined benefit pension plan. Defined contribution plans are particularly prevalent among small employers. While most plans in the private sector are defined contribution plans, about 60 percent of active plan participants are in defined benefit plans with an additional 26 percent also participating in one or more supplemental defined contribution plans. Only about 14 percent of active plan participants rely solely on defined contribution plans.

² Moreen, Robert A. Why choose a defined contribution plan? *Pension World*, January 1985.

III. REGULATORY FRAMEWORK

A number of factors contribute to the popularity of defined contribution plans.

(1) Many plan sponsors may not wish to be committed to a fixed benefit payout, particularly during difficult economic times. What the company has to pay out may be heavily influenced by factors beyond its control such as investment performance and inflation-induced salary increases.

(2) Since the passage of ERISA in 1974, administrative procedures for defined benefit plans have become more costly and complex relative to those for defined contribution plans. For instance, defined benefit plans must adhere to minimum funding requirements and pay insurance premiums to PBGC. Defined benefit plans must also have an actuary make an actuarial valuation of the plan for every third year and plans with over 100 participants must engage an independent qualified public accountant to examine the plan's financial statements and render an opinion. Further, experts say that the new "top heavy" rules resulting from the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) will be more burdensome on defined benefit plans than on defined contribution plans.

(3) ERISA imposes contingent liability on sponsors of defined benefit plans. If a plan is ended without sufficient assets to pay for guaranteed accrued benefits, the sponsor is liable for the deficiency for up to 30 percent of his net worth.

(4) The unlimited liability placed on an employer who withdraws from an insufficiently funded multiemployer plan has caused a reluctance for new employers to join these defined benefit arrangements. A number of defined contribution plans are now springing up in trades or occupations traditionally served by multiemployer defined benefit plans.

(5) The financial Accounting Standards Board (FASB) is currently considering a requirement that would place unfunded pension liabilities on the plan sponsor's balance sheet and change the way annual pension expense is determined. In contrast, defined contribution plans have no unfunded accrued liabilities and annual pension expense is identical with contributions made to the plan.³

While some argue further that the proposed increase in premiums charged ongoing plans by PBGC from the current \$2.60 to \$7.50 per participant is also contributing toward the trend in defined contribution plans, insurance premiums do not appear to be a major pension cost item. However, other legal requirements may weigh on the decision of which type of plan to establish. The Retirement Equity Act of 1984 (REA) imposes new requirements for joint and survivor benefits under defined benefit plans. It also re-

³ Ibid.

duces the age for (1) participation in a plan to age 21 and (2) counting service for vesting purposes to age 18. Some say that this could have an adverse impact on defined benefit plans by adding to administrative costs, severance cashouts, and PBGC insurance premiums.

A. TAX INCENTIVES FOR DEFINED CONTRIBUTION PLANS

Favorable tax incentives have been added to the Internal Revenue Code which encourage the adoption of defined contribution plans. With the passage of the Revenue Act of 1978, Congress added section 401(k) to the tax code to permit employees the choice of receiving compensation currently (where it would be subject to tax) or deferring as much as 25 percent of pretax compensation (up to \$30,000) annually. Plans usually permit employees to defer receiving 6 percent of compensation with employers usually matching these deferrals by about 50 cents on the dollar. Section 401(k) plans are the private sector counterparts to section 457 plans for public sector employees and section 403(b) tax-sheltered annuities for employees of educational institutions and certain tax-exempt organizations.

Beginning in 1979 employers were allowed to establish another type of defined contribution plan called a Simplified Employee Pension (SEP) plan. SEPs are intended to eliminate most of the "red tape" associated with tax-qualified pension plans. Employers may contribute 15 percent of compensation up to \$30,000 a year to the individual accounts maintained for each employee.

Over the last decade, Congress has provided various incentives for employers to offer employee stock ownership in their company. Special tax incentives were provided for employee stock ownership plans (ESOPs) with the passage of ERISA in 1974. Subsequent tax legislation changed the manner in which the plans are financed, but the concept remained the same. In 1975 Congress reshaped and simplified the ESOP by authorizing the establishment of Tax Reduction Act Stock Ownership Plans (TRASOPs) funded with money that the company would otherwise pay in taxes. Beginning in 1984 TRASOPs were replaced with a payroll-based employee stock ownership plan (PAYSOP) created by the Economic Recovery Tax Act. Also included in this act was a provision which permitted all workers to contribute up to \$2,000 (\$2,250 for employees with nonworking spouses) to an Individual Retirement Account (IRA). All of the above plans are considered defined contribution plans.

IV. ANALYSIS OF TRENDS IN NEW AND TERMINATED PENSION PLANS

Table 1 shows the number of new corporate and Keogh plans (for self-employed individuals) formed and old plans terminated each year during the pre-ERISA period (1956 through September 1974) and the post-ERISA period (October 1974 through June 1984). This is broken down between defined benefit and defined contribution plans. This is also presented graphically in Figures 1 and 2.

A. NEW PLANS

During the pre-ERISA period defined benefit plans constituted about 55 percent of all new plan formations. Table 2 shows that this ratio was maintained closely from year-to-year. After ERISA, however, they accounted for only 29 percent of new plan growth. On the surface this suggests that employers are not adopting defined benefit plans. But what is in fact happening is that there has been a large increase in the popularity of defined contribution plans. Since most large companies have defined benefit pension plans that predate ERISA, growth in new plans would be expected among small companies. These companies find that defined contribution plans meet their needs and are simpler to administer. Moreover, as was mentioned earlier, many companies are also adopting defined contribution plans (particularly 401(k) plans) to supplement the defined benefit plans they already have in place.

The total number of defined benefit plans formed before ERISA is about the same during the comparable period after. In the nine-year period from 1965 to 1973, there were 157,599 new defined benefit plans formed. This is fairly close to the 145,502 defined benefit plans formed between 1975-1983. (The 1974 period is omitted since ERISA was enacted in September 1974.) The big growth in pension plans was in the defined contribution area, where almost three times as many plans were formed in the post-ERISA period (371,087) as were formed in the comparable pre-ERISA period (128,672).

TABLE 1.—CORPORATE AND SELF-EMPLOYED PENSION PLAN FORMATIONS AND TERMINATIONS 1956–1984 ¹

	Defined benefit plans			Defined contribution plans			Total		Net total plans created
	Plans formed	Plans terminated	Net plans created	Plans formed	Plans terminated	Net plans created	Plans formed	Plans terminated	
Year:									
1956.....	3,175	192	2,983	2,072	111	1,961	5,247	303	4,944
1957.....	3,527	180	3,347	2,898	171	2,727	6,425	351	6,074
1958.....	3,883	224	3,659	3,071	179	2,892	6,954	403	6,551
1959.....	3,824	270	3,554	3,442	204	3,238	7,266	474	6,792
1960.....	5,011	300	4,711	4,946	258	4,688	9,957	558	9,399
1961.....	4,919	374	4,545	4,468	361	4,107	9,387	735	8,652
1962.....	5,188	476	4,712	5,030	383	4,647	10,218	859	9,359
1963.....	5,840	441	5,399	5,304	453	4,851	11,144	894	10,250
1964.....	6,581	509	6,072	5,127	532	4,595	11,708	1,041	10,667
1965.....	7,495	512	6,983	6,037	524	5,513	13,532	1,036	12,496
1966.....	10,124	603	9,521	8,059	607	7,452	18,183	1,210	16,973
1967.....	11,292	602	10,690	9,229	705	8,524	20,521	1,307	19,214
1968.....	12,896	672	12,224	10,886	771	10,115	23,782	1,443	22,339
1969.....	14,692	969	13,723	13,383	861	12,522	28,075	1,830	26,245
1970.....	16,512	1,142	15,370	16,062	1,164	14,898	32,574	2,306	30,268
1971.....	22,493	1,605	20,888	18,171	1,730	16,441	40,664	3,335	37,329
1972.....	28,265	1,745	26,520	21,070	1,775	19,295	49,335	3,520	45,815
1973.....	33,830	2,222	31,608	25,775	1,908	23,867	59,605	4,130	55,475
Through September, 1974.....	25,087	1,923	23,164	21,378	1,571	19,807	46,465	3,494	42,971
Subtotal.....	224,634	14,961	209,673	186,408	14,268	172,140	411,042	29,229	381,813

October to December 1974	7,492	654	6,838	5,428	456	4,972	12,920	1,110	11,810
1975	15,319	4,550	10,769	14,720	3,558	11,162	30,039	8,108	21,931
1976	4,790	8,970	-4,180	23,334	15,660	7,674	28,124	24,630	3,494
1977	6,953	5,337	1,616	28,463	10,478	17,985	35,416	15,815	19,601
1978	9,728	4,625	5,103	55,956	10,661	45,295	65,684	15,286	50,398
1979	15,755	3,267	12,488	41,122	7,574	33,548	56,877	10,841	46,036
1980	18,849	4,297	14,552	50,493	8,982	41,511	69,342	13,279	56,063
1981	23,789	4,536	19,253	57,748	8,906	48,842	81,537	13,442	68,095
1982	28,189	5,043	23,146	57,162	10,108	47,054	85,351	15,151	70,200
1983	22,130	7,230	14,900	42,089	11,417	30,672	64,219	18,647	45,572
1984 ¹	7,617	4,751	2,866	16,736	6,049	10,687	24,353	10,800	13,553
Subtotal	160,611	53,260	107,351	393,251	93,849	299,402	553,862	147,109	406,753
Total	385,245	68,221	317,024	579,659	108,117	471,542	964,904	176,338	788,566

¹ Through June 1984.

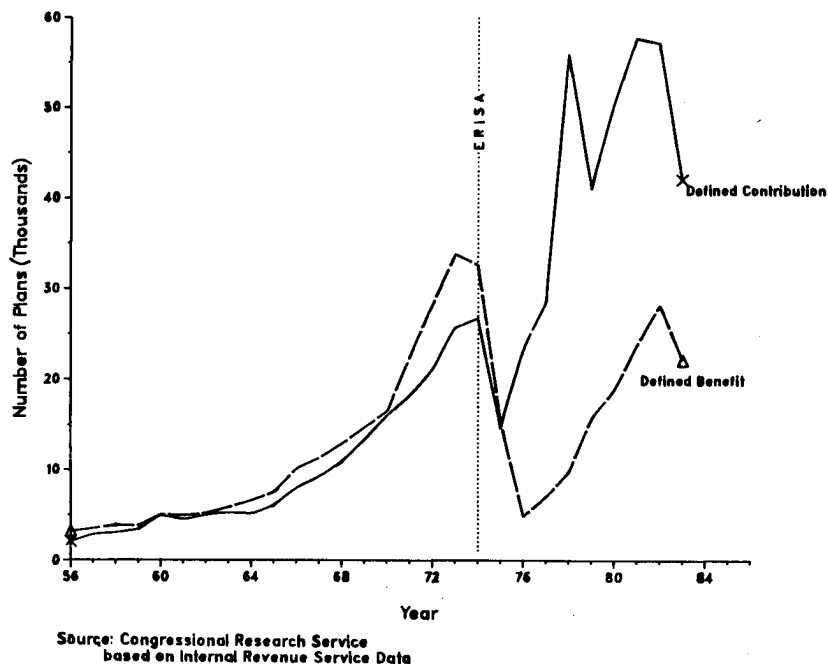
Source: CRS calculations based on Employee Benefit Plan Review (EBPR) Research Reports and Employee Benefit Research Institute (EBRI) tabulations based on Internal Revenue Service Data.

Figures 1 through 3 illustrate the trends in plan formations and terminations. Prior to ERISA new defined benefit plans exceeded defined contributions plans each year. This continued until 1976, when new defined contribution plans far exceeded the growth in defined benefit plans.

Figure 1 shows the dramatic decline in new plan formations immediately after ERISA was enacted in September 1974 as companies apparently took a "wait and see" approach before deciding to adopt a plan. By 1978 new plan formations hit an all-time high. This was largely attributable to the boom in defined contribution plans, which reached almost 56,000 new plans—more than double that in any pre-ERISA year. Defined benefit plans have yet to reach their pre-ERISA peak of 33,830 new plans in 1973. However, they are currently running a little below their immediate pre-ERISA average. During 1979–1983 new defined benefit plans averaged 21,742 compared to 23,158 during 1969–1973.

FIGURE 1

Corporate and Self-Employed Pension Plan Formations 1956 – 1983



B. TERMINATED PLANS

Prior to ERISA defined benefit and defined contribution plans were discontinued at about the same annual rate. Figure 2 illustrates the impact of ERISA on an employer's decision to maintain

a plan. The ERISA "shock" was particularly noticeable in 1976, when the number of terminated defined benefit plans doubled over the previous year. However, defined contribution plan terminations more than quadrupled. The trend lines since 1976 have followed approximately the same slope, dropping first then rising noticeably during 1983. Another point worth noting is that defined benefit plans accounted for a little over half of all pre-ERISA plan terminations, but only about 36 percent of post-ERISA transactions.

FIGURE 2

Corporate and Self-Employed Pension Plan Terminations 1956 - 1983

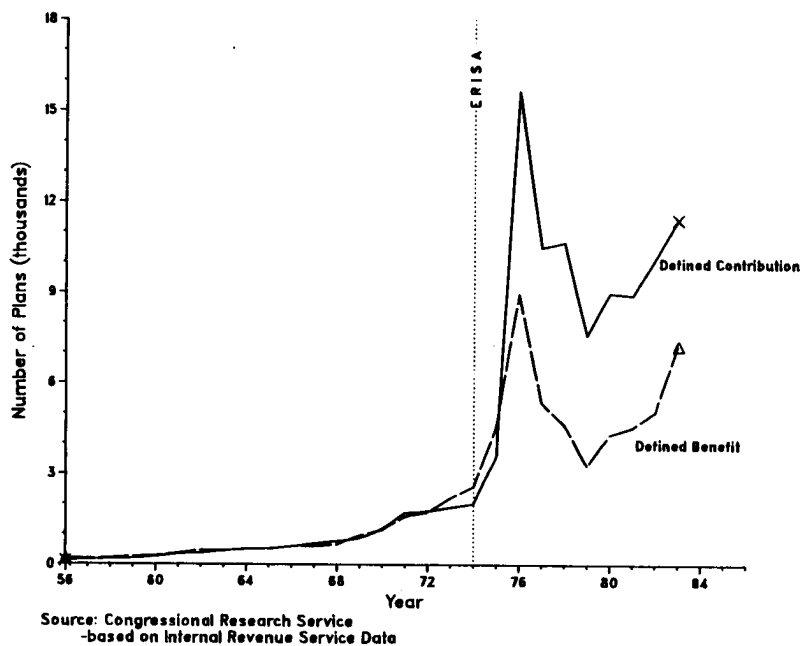


Table 2 shows the year-by-year ratio of (1) new defined benefit plans to new defined contribution plans and (2) terminated defined benefit plans to terminated defined contribution plans. It shows that the ratios of new and terminated plans have both shifted towards defined contribution plans during the post-ERISA period.

TABLE 2.—PRE- AND POST-ERISA COMPARISON OF NEW AND TERMINATED DEFINED BENEFIT PLANS TO NEW AND TERMINATED DEFINED CONTRIBUTION PLANS (DB:DC)

[Percent]

	Pre-ERISA		New plans		Terminations		Post-ERISA		New plans		Terminations	
	DB	DC	DB	DC	DB	DC	DB	DC	DB	DC	DB	DC
1956.....	61	39	63	37	1974 ²	58	42	59	41			
1957.....	55	45	51	49	1975.....	51	49	56	44			
1958.....	56	44	56	44	1976.....	17	83	36	64			
1959.....	53	47	57	43	1977.....	20	80	34	66			
1960.....	50	50	54	46	1978.....	15	85	30	70			
1961.....	52	48	51	49	1979.....	28	72	30	70			
1962.....	51	49	55	45	1980.....	27	73	32	68			
1963.....	52	48	49	51	1981.....	29	71	34	66			
1964.....	56	44	49	51	1982.....	33	67	33	67			
1965.....	55	45	49	51	1983.....	34	66	39	61			
1966.....	56	44	50	50	1984 ³	31	69	44	56			
1967.....	55	45	46	54								
1968.....	54	46	47	53								
1969.....	52	48	53	47								
1970.....	51	49	50	50								
1971.....	55	45	48	52								
1972.....	57	43	50	50								
1973.....	57	43	54	46								
1974 ¹	54	46	55	45								

¹ Through September.² October through December.³ January through June.

C. NET PLAN GROWTH AND IMPACT OF ERISA

There was a significant change in the number of new plans that were formed as well as in the number of old plans that were ended shortly before and after ERISA. Figure 3 illustrates this "net growth" by simply subtracting the number of plans that terminate each year from the number of plans formed.

Net plan growth had been steadily increasing during the 1950s and 1960s, reaching a peak of 55,000 net new plans in 1974. However, only 22,000 net plans were created in the following year, dropping still farther to less than 4,000 net new plans in 1976. Critics blamed ERISA for the turn of events, but later evidence showed that other factors were also responsible.

A 1978 General Accounting Office (GAO) study showed, for example, that economic and other factors played a more significant role in decisions to end pension plans.⁴ GAO reported that the adverse effect on American workers indicated by the number of terminations was misleading because:

—Where plan sponsors called the act a major reason for plan termination, the terminating plans generally did not meet the act's minimum participation and vesting requirements designed to make sure that employees would benefit from a pension plan without having to meet unreasonable years worked and age requirements.

⁴ U.S. General Accounting Office. Effect of the Employee Retirement Income Security Act on the Termination of Single Employer Defined Benefit Pension Plans. HRD-78-90, April 27, 1979.

- Participants in terminated plans had received or were to receive almost all of their vested benefits under existing plan provisions.
- About 41 percent of the sponsors of terminating pension plans continued pension coverage for their employees through new or other existing plans.
- According to plan sponsors, the major factors contributing to plan terminations were the increased cost of providing benefits and revising and administering plans, the burden of meeting reporting and disclosure requirements, the need for clarifying regulations, and the concern about penalties for not meeting requirements.

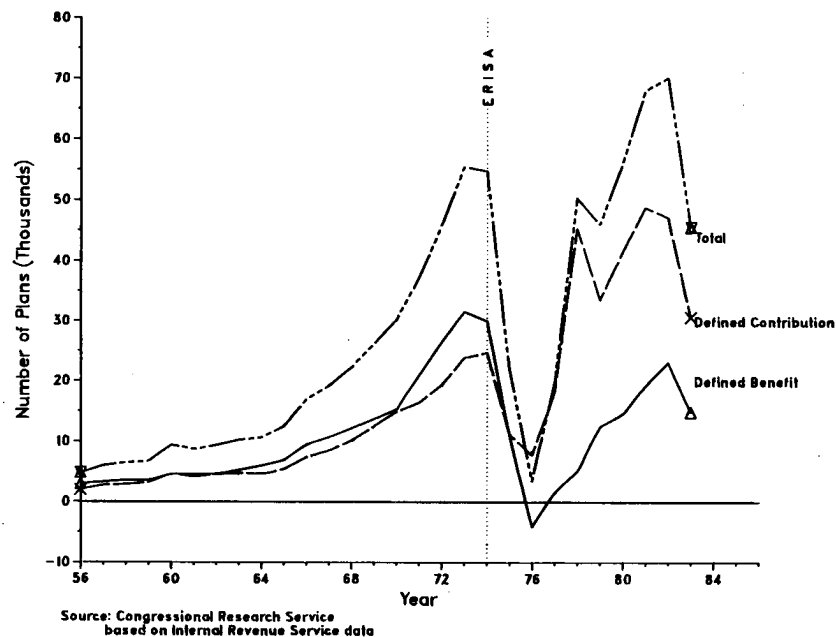
Later studies also downplayed the role that ERISA had on employer decisions to adopt or terminate a pension plan. A 1979 study by ABT Associates, Inc., found that none of the variables which have a significant positive correlation with plan formation (i.e., high stability of employment, good financial capability of organization, good economic conditions in industry, high average employee earnings) is directly related to the provisions of ERISA. A 1982 study prepared for the Department of Labor by the Ohio State University Research Foundation on why business firms offer pensions, found no support for the argument that ERISA had undermined the continued viability of the private pension system. The Ohio State researchers concluded that if ERISA had any influence on the rate at which new plans were formed, it influenced variables that were inaccessible to their analysis.

If ERISA has an impact on net new plans adopted, it is speculated that ERISA initially may have caused "pruning" of those very plans which led to the enactment of the law, that is, that the sponsors of poor plans decided to end their plans altogether, rather than conform to the law's minimum standards. Other employers, before adopting a plan, may have wanted to take a "wait and see" approach until the law's provisions and the accompanying regulations had time to take effect.

Pension plan formations and terminations may also be related in part to business cycles. For examples, November 1973 marked a business cycle peak followed by a trough in March 1975. Net plan (i.e., new plans minus terminations) generally followed this cyclical pattern. Another business cycle peak was reached in January 1980, by which time there had occurred a major resurgence in net pension plan growth. A trough quickly followed in July 1980. Then another peak was reached in July 1981 and still another trough in November 1982. Yet, net plan growth continued upward over the entire 1979-1982 period before and throughout these two back-to-back recessions. However, not until after the recovery had begun did the sharp drop in net plan growth occur during 1983. This drop may be both a delayed reaction to the deep recession experienced in 1982, and perhaps a reaction to the passage of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). While special pension rules were included in TEFRA to provide greater pension equity among rank-and-file employees, critics charge that these rules were heavily biased against small businesses—precisely the sector of the economy where pension growth is considered needed.

FIGURE 3

Corporate and Self-Employed Net Pension Plan Growth 1956 - 1983



D. RELATIVE SIZE OF PLANS

Defined benefit plans tend to cover more participants than defined contribution plans. Even though newly formed defined contribution plans outnumbered defined benefit plans by about 2½ to 1 over the post-ERISA period, defined benefit plans for almost half (45 percent) of the participants covered by newly formed plans. This is shown in table 3.

Once the termination data are weighted by participants, the ERISA impact falls significantly. Richard A. Ippolito, Director of Policy and Research at the Labor Department's Office of Pension and Welfare Benefit Programs, has found that the post-ERISA participant-weighted plan termination rate was over 80 percent higher than the 1970-74 termination rate, but not 200 percent higher, as the unweighted data suggest. Moreover, the weighted rate of new qualifications fell by only 12 percent, not 60 percent as suggested by the unweighted data.⁵

⁵ Ippolito, Richard A. Pension Economics. January 1985 (forthcoming).

TABLE 3.—NUMBER OF PARTICIPANTS IN NEWLY FORMED PLANS DURING POST-ERISA PERIOD—
1974 TO 1984 ¹

	Defined contribution		Defined benefit		Total	
	Total employees	Average per plan	Total employees	Average per plan	Total employees	Average per plan
Year:						
1974.....	402,437	16	1,104,772	34	1,507,209	25
1975.....	161,872	11	626,575	41	788,447	26
1976.....	≈ 259,607	11	134,462	28	394,069	14
1977.....	3,315,205	116	1,639,719	236	4,954,924	140
1978.....	2,754,635	49	1,125,498	116	3,880,133	59
1979.....	1,050,595	26	972,062	62	2,022,657	36
1980.....	1,997,285	40	1,784,280	95	3,781,565	55
1981.....	1,302,089	23	2,185,551	92	3,487,640	43
1982.....	1,428,857	25	1,324,582	47	2,753,439	32
1983.....	1,927,456	46	1,946,492	88	3,873,948	60
1984.....	1,608,642	96	677,172	89	2,285,814	94
Total.....	16,208,680	41	13,521,165	84	29,729,845	54
Percent.....	55		45		100	

¹ Through June 1984.² Excludes unknown number of stock bonus plans.

Source: CBS tabulations based on Employee Benefit Plan Review (EBPR) Research Reports of Internal Revenue Service data.

Ippolito concluded that the data confirm that defined contribution plans have been growing with remarkable speed. At the same time, he concluded that the data do not appear to support the notion that the dominance of defined benefit plans as the primary source of pension benefits in the U.S. is fundamentally threatened by the growth of defined contribution plans. He found that most defined contribution plan growth is associated with *secondary* plan coverage and there is little indication that the institution and development of these plans has led to any substantial reduction in the generosity of the primary defined benefit plan.⁶

This latter point is corroborated by a CRS analysis of a data base of 849 companies maintained by the employee benefit consulting firm of Hay-Huggins, Inc. At least two-thirds of the private sector organizations surveyed provided a supplemental defined contribution plan as part of their overall retirement income package. Analysis of selected data indicated that companies providing a combination of a defined benefit pension plan and a supplemental plan(s) have defined benefit plans that are just as generous as the companies that have only defined benefit plans. The CRS analysis showed that the mean value of the defined benefit pension plan was practically the same regardless of whether the company also provided a supplemental plan.⁷

⁶ Ibid.⁷ Designing a retirement system for Federal workers covered by social security. Committee print prepared by the Congressional Research Service for the House Committee on Post Office and Civil Service. Committee Print 98-17, December 1984, p. 53.

V. DEPARTMENT OF LABOR STATISTICS

The Department of Labor prepared statistical information on the relative size of defined benefit plans and defined contribution plans as part of its National ERISA Pension Policy Forum. Table 4 shows this breakdown in plans, participants and assets over the 1975-1983 period. So far as the limits of the breakdown are concerned, it should be noted that data for years 1980-1983 are based on projected estimates. Further, the tables do not include Keogh plans for self-employed individuals. The data therefore represent corporate pension plans and reflect statistics on the bulk of the private pension system as defined by assets, benefits, and participants.⁸

A. PLANS

The Labor Department data show that the growth of defined contribution plans during the nine-year period 1975-1983 slightly outpaced the growth in defined benefit plans. (Data are not available on the pre-ERISA period since all pension plans were not required to submit annual reports to the Department of Labor.) Defined benefit plans grew by about 120 percent compared to 132 percent for defined contribution plans. Moreover, according to the Labor Department figures, there was only a slight decline in the ratio of defined benefit plans to defined contribution plans. However, this may be partly attributable to basing 1980-1983 estimates on trends observed in earlier years for which actual data were available. Nonetheless, Labor Department data show that defined benefit plans declined from about 32 percent of all plans in 1975 to about 30 percent in 1983.

⁸ The statistics shown in Table 1 are based on IRS data and include Keogh plans for self-employed individuals. Therefore, IRS and Labor Department data are not comparable with each other. While the number of Keogh plans may be rather large, the number of participants and assets would be small relative to corporate plans.

TABLE 4.—NUMBER OF PRIVATE PENSION PLANS, PENSION PLAN PARTICIPANTS AND PENSION PLAN ASSETS BY TYPE OF PLAN, 1975-83 ¹

Year:	Total plans			Participants (thousands)			Assets * (billions)		
	Total	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution
1975.....	340,171	107,399	232,772	44,511	33,004	11,507	\$543.3	\$391.3	\$152.0
1976.....	398,407	120,773	277,634	47,679	34,207	13,472	594.7	428.4	166.3
1977.....	451,458	131,768	319,690	49,928	34,731	15,197	612.1	440.9	171.1
1978.....	495,845	139,340	356,505	52,371	36,103	16,268	660.6	479.5	181.1
1979.....	538,751	157,639	381,112	55,193	36,925	18,268	700.4	505.7	194.8
1980.....	589,893	179,424	410,469	57,903	37,979	19,924	740.3	537.7	202.6
1981.....	653,370	198,624	454,746	61,700	39,241	22,459	757.9	547.3	210.7
1982.....	718,847	218,529	500,318	65,200	40,424	24,776	821.3	593.0	228.3
1983.....	775,477	235,745	539,732	66,800	40,280	26,520	900.0	649.8	250.2

¹ Exclude Keogh plans for the self-employed.

* Assets for 1975-82 have been adjusted to reflect 1983 dollars.

Note: Data for years 1975-80 based on Form 5500 annual financial reports and on Pension Facts published by the American Council of Life Insurance. Data for years 1980-83 based on projected estimates.

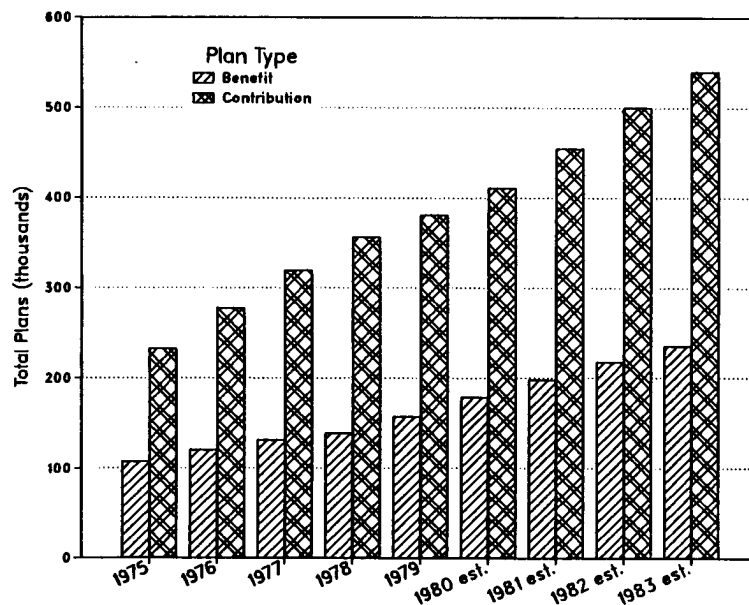
Source: Department of Labor.

B. PARTICIPANTS

Assessing the relative growth in the number of participants covered by defined benefit and defined contribution plans is somewhat complicated by conflicting estimates of the number of participants. Table 4 and Figure 5 show that the Department of Labor found 66.8 million participants in private pension plans at the end of 1983. This is more than double the estimated 28.1 million full-time participants reported to be participating in employer-sponsored pension plans on the basis of the 1983 Current Population Survey (CPS). The discrepancy cannot be explained entirely, but there are several factors known to account for part of this difference.

FIGURE 4

Number of Private Pension Plans by Type of Plan
1975 - 1983



The Department of Labor figures include both active and retired workers, whereas the CPS covers just full-time workers. The Labor Department estimates that 55.6 million of the total are active employees. This is still significantly higher than the CPS count. Much of this difference appears to be the result of double counting. Indeed, many companies have both a defined benefit plan and one or more defined contribution plans in which the same employees often participate. In these situations, the Labor Department figures would count the same individual at least twice.

The Department of Labor furnished the Congressional Research Service (CRS) with an estimate of double counting for 1980. From this point we can estimate how much double counting exists in 1983.

In 1980 there were about 49.1 million active participants of whom 12.9 million were estimated to participate in more than one plan. This is shown in the following breakdown:

TABLE 5.—ACTIVE PENSION PLAN PARTICIPANTS—1980

	Number (millions)	Percent
Defined benefit plan only	29.7	60
Defined contribution plan only	6.5	13
At least 1 supplemental plan	10.3	21
At least 2 supplemental plans	2.6	5
Total	49.1	¹ 100

¹ Total does not add due to rounding.

Source: Unpublished Department of Labor estimates.

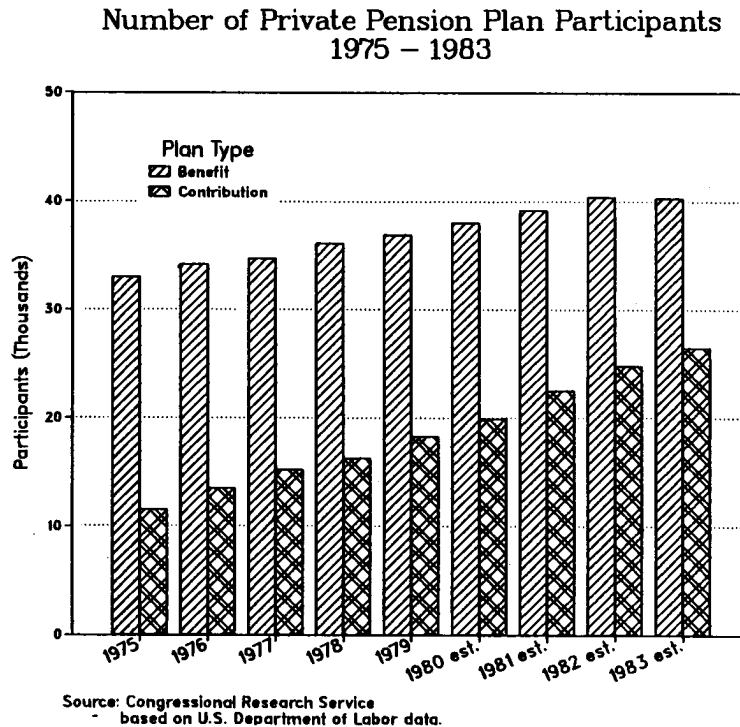
Therefore, in 1983 the net number of active pension plan participants was actually 36.2 million, or about 74 percent of the combined defined benefit-defined contribution total. If we multiply the 1983 figure of 55.6 million active participants by 74 percent, there would be about 41.1 million net participants in 1983—still significantly higher than the 28.1 million cited in the CPS.

There are several factors that could account for some of this remaining difference. First, the CPS counts only active participants and tends to undercount the actual number of plan participants because many surveyed workers answer "I don't know" to the pension coverage question. Second, a worker could be unemployed at the time of the CPS household survey, but a plan participant at some other point in the year. A person could therefore be included in the Labor Department's figures, which are based on the annual 5500 report form that is filed by the plan sponsor, but not included in the CPS figures.

Notwithstanding the above data limitations, the number of participants has grown much faster in defined contribution plans than it has in defined benefit plans. Department of Labor data show defined contribution plan participants grew by about 130 percent between 1975 and 1983 compared to only about 22 percent for defined benefit plans. Much of this growth may be the popularity in thrift/savings plans, and more recently in section 401(k) salaried reduction plans. Many companies have adopted these arrangements to supplement their defined benefit plan. Twenty-six percent of all active participants in 1980 were covered by a defined benefit plan and one or more supplemental defined contribution plans. Only 13 percent of active participants were covered by a defined contribution plan alone.⁹

⁹ In his forthcoming book *Pension Economics*, Richard A. Ippolito estimates that 18 percent of private pension plan participants are now covered solely or primarily by defined contribution plans; in 1970, only 12 percent of participants had such coverage.

FIGURE 5



C. ASSETS

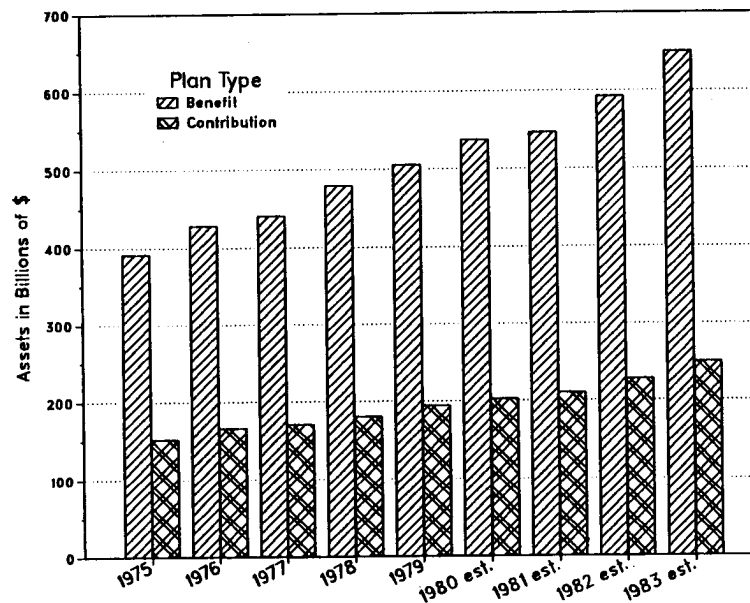
Table 4 shows that assets after being adjusted to 1983 dollars have increased by about two-thirds over the 1975-1983 period. This is true not only for total assets, but for assets in each type of plan. In fact, the percentage of assets in defined benefit plans has stayed at about 72 percent for each year over the entire nine-year period. This may be partly because the 1980-1983 data are estimates of the Labor Department and build on earlier data.

The growth of defined contribution plan assets is expected to increase at a faster rate than defined benefit plan assets because of two factors: (1) the maturity process itself (i.e., additional contributions and investment earnings over time for an increasing number of plans) and (2) the expected creation of even more secondary coverage over the long term (unless changes in tax law are made). In the year 2000 it is estimated that defined contribution plan assets will account for about 35 percent of all private pension plan assets, compared to about 28 percent in 1983. Currently, it is estimated that over 70 percent of defined contribution plan assets are in plans that are secondary to defined benefit plans.¹⁰

¹⁰ Ibid.

FIGURE 6

Private Pension Plan Assets by Type of Plan 1975 - 1983



Source: Congressional Research Service
based on U.S. Department of Labor data.

D. BENEFIT PAYMENTS

Table 6 shows that the largest growth in benefit payments has been in defined contribution plans, which increased by 180 percent over the 1975-1983 period. Benefit payments under defined benefit plans increased by about 98 percent. However, in 1983 defined benefit plans accounted for almost 60 percent of all benefits paid.

TABLE 6.—BENEFIT PAYMENTS BY TYPE OF PENSION PLAN

(In billions of dollars)

	Total	Defined benefit	Defined contribution
Year:			
1975.....	\$18.3	\$12.2	\$6.1
1976.....	21.0	14.0	7.0
1977.....	22.9	15.0	7.9
1978.....	26.5	17.7	8.9
1979.....	28.7	18.7	10.0
1980.....	32.5	20.3	12.2
1981 estimated.....	35.2	21.5	13.7
1982 estimated.....	38.2	22.9	15.4
1983 estimated.....	41.3	24.2	17.1
Growth 1975-83 (percent).....	126	98	180

Source: Unpublished Department of Labor data.

E. ASSET-BENEFIT RATIO

Table 7 shows the ratio of assets to benefit payments based on Department of Labor data. While the asset-benefit ratio has not changed significantly for defined contribution plans, Table 6 shows that there has been a considerable increase for defined benefit plans, from 17.3 in 1975 to 26.9 in 1983. This increase would be due in part to the funding standards imposed by ERISA.

Defined benefit plans appear to be well-funded. According to Laurence Kotlikoff, if one considers vested accrued liabilities as the relevant measure of pension indebtedness, then the majority of pension plans of major U.S. corporations appear to be adequately funded, if not overfunded.¹¹

TABLE 7.—ASSETS, BENEFIT PAYMENTS, AND ASSET/BENEFIT PAYMENT RATIO BY TYPE OF PLAN

	Total assets			Defined benefit			Defined contribution		
	Assets ¹	Benefits	Ratio	Assets ¹	Benefits	Ratio	Assets ¹	Benefits	Ratio
Year:									
1975.....	\$293.5	\$18.3	16.0	\$211.4	\$12.2	17.3	\$82.1	\$6.1	13.5
1976.....	339.8	21.0	16.2	244.8	14.0	17.5	95.0	7.0	13.6
1977.....	372.3	22.9	16.3	268.2	15.0	17.9	104.1	7.9	13.2
1978.....	432.6	26.5	16.3	314.0	17.7	17.7	118.6	8.9	13.3
1979.....	510.3	28.7	17.8	368.4	18.7	19.7	141.9	10.0	14.2
1980.....	612.3	32.5	18.8	444.7	20.3	21.9	167.6	12.2	13.7
1981 estimated.....	691.9	35.2	19.7	499.6	21.5	23.2	192.3	13.7	14.0
1982 estimated.....	795.7	38.2	20.8	574.5	22.9	25.1	221.2	15.4	14.4
1983 estimated.....	900.0	41.3	21.8	649.8	24.2	26.9	250.2	17.1	14.6

¹ In current dollars.

Source: CRS calculations based on Department of Labor data.

¹¹Kotlikoff, Laurence J. Testimony before the Subcommittee on Labor of the Senate Committee on Labor and Human Resources. Oversight of Private Pension Plans, 1983. March 21, 1983. p. 150.

VI. REPLACING DEFINED BENEFIT PLANS WITH DEFINED CONTRIBUTION PLANS

Some companies have terminated their defined benefit plans and replaced them with a defined contribution plan. To ascertain the extent of this practice, CRS obtained from the Department of Labor a cross tabulation that matched the Pension Benefit Guaranty Corporation's (PBGC) data tape on defined benefit plan terminations against the Labor Department's master plan data file.¹²

The PBGC data tape did not include benefit plan terminations. For years prior to 1979, the tape includes only so-called "insufficient plans," where the sponsoring company did not have enough assets in the plan to cover vested benefits. (Only about 20 percent of plans terminate with insufficient assets.) Moreover, not all plans included in the PBGC tape could be matched against the Department's master pension plan file because of filing errors, key punch errors, etc. However, there was about a 75 percent match rate. Some companies may have established a successor plan after 1981 which would not be included in the Labor Department's 1981 master file. Therefore, the number of successor plans that may have been established after a defined benefit plan was terminated could be higher.

Of the 15,032 defined benefit plans on PBGC's tape that were discontinued before 1981, the sponsoring company adopted a successor defined contribution plan in 1,400 instances, or about once in every 11 cases. In 2,091 instances, the company already had a defined contribution plan in place when the defined benefit plan was terminated. In 38 instances, a new defined benefit plan was established after the old defined benefit plan was terminated. In addition, 285 companies with multiple defined benefit plans continued to maintain one plan after terminating the other. This is summarized as follows:

Plan activity

[Based on 15,032 defined benefit plan terminations between 1975-80]¹

	<i>Number of Cases</i>
(1) Defined contribution plan established after defined benefit plan was terminated	1,400
(2) Defined contribution plan established before defined benefit plan was terminated	2,091
(3) New defined benefit plan established after defined benefit plan was terminated	38

¹² PBGC insures the benefits of most participants in private sector defined benefit plans. Defined contributions plans which by definition are fully funded, are not insured. Defined contribution plans include profit-sharing plans, thrift-savings plans, 401(k) plans, money purchase, and stock bonus plans. Also excluded from insurance coverage are plans of fraternal societies financed entirely by member contributions, public pension plans, church plans, plans established and maintained exclusively for substantial owners (e.g., Keogh plans for self-employed individuals), as well as pension plans that terminated before ERISA went into effect.

	<i>Number of Cases</i>
(4) Existing defined benefit plan continued after another defined benefit plan was terminated.....	285
Total.....	3,814

¹ Over 90 percent of the terminating defined benefit plans covered fewer than 100 participants.

Analysis of more recent data shows that the practice of replacing defined benefit plans with defined contribution plans may be accelerating. Richard A. Ippolito has studied the adoption of new plans following the termination of old ones by examining the PBGC case processing tape covering the period between 1979 and mid-1983 (see Table 8). He ascertained whether a successor plan was established when a "sufficient" defined benefit plan was terminated. These are plans which have enough assets to pay vested benefits.¹³ While Ippolito's analysis covers a later period and deals only with sufficient plans, he found that almost half of the *participants* in sufficient plans were expected to be covered by a new plan after the defined benefit plan was ended. Usually, the successor plan would be a defined contribution plan as shown in Table 9.

TABLE 8.—TERMINATIONS OF PLANS INSURED BY PBGC

Plan and sponsor status	Plans	Percent	Participants	Percent
Sufficient terminations:				
Ongoing firms	1,126	68	429,000	65
Failed firms.....	360	22	101,000	15
Total.....	1,486	90	530,000	80
Insufficient terminations:				
Ongoing firms	64	4	47,000	7
Failed firms.....	112	7	85,000	13
Total.....	176	11	132,000	20
Grand total ¹	1,662	100	662,000	100

¹ Totals may not add due to rounding.

Source: Richard A. Ippolito. *Pension Economics* (forthcoming) using PBGC Case Processing Tape. Data based on terminations occurring between 1979 and mid-1983.

TABLE 9.—NEW PLAN FORMATION AFTER TERMINATION IN ONGOING FIRMS

Type of new plan	Participants (percent)
No new plans.....	20
Unknown.....	33
New plans adopted:	
DB-Plan.....	1
DC-Plan.....	27
Unknown.....	19
Total.....	100

Source: Richard A. Ippolito. *Pension Economics* (forthcoming) using PBGC Case Processing Tape. Data based on terminations occurring between 1979 and mid-1983.

¹³ The previous CRS analysis covered (1) insufficient plans which were ended during the 1975-1978 period, and (2) both sufficient and insufficient plans ended during the 1979-1981 period. It is less likely for a company to adopt a successor plan if it terminated an insufficient plan because in many cases the company goes out of business. Moreover, the CRS analysis deals with plans whereas Ippolito's analysis deals with participants.

VII. ANALYSIS OF PBGC DATA

Another way to measure the relative stability of defined benefit plans is to examine the PBGC data base. Over the four-year period 1980-1983 the number of participants covered by the Federal Government's pension plan insurance program increased from 36.6 million participants to 39.4 million—an increase of 7.6 percent. In 1980, the PBGC insured 106,000 defined benefit pension plans. By 1983 the total exceed 115,000. Single employer plans accounted for 98 percent of these plans and 78 percent of the participants.

Table 10 shows that the overall total of single employer defined benefit plans has increased each year from 1980 to 1983. The number of plans and participants with benefits insured by PBGC have both increased by about nine percent. A very few large plans accounted for less than one percent of all single employer plans, but about 43 percent of all single employer participants.

Multiemployer plan coverage is dominated by a small number of very large plans. Two percent of the plans account for about half of all multiemployer participants. In the multiemployer area, however, there has been a leveling off in plan growth. Table 11 shows that in 1983 there were 9 fewer plans, but about 113,000 more participants—an increase of only 1.3 percent.

Table 12 shows a size distribution of new single employer plans with PBGC. Most of the growth each year (about 95 percent) in new insured defined benefit plans has been among smaller firms with a plan size under 100 participants. However, over 80 percent of all participants are in the large plans.

TABLE 10.—SINGLE EMPLOYER PLANS WITH PBGC COVERAGE BY SIZE OF PARTICIPANT GROUP,
1980-83

[Participants in thousands]

Size of participating group	1980		1981		1982		1983 ¹	
	Plans	Participants	Plans	Participants	Plans	Participants	Plans	Participants
25,000 or more	130	8,263.5	129	8,941.3	125	8,894.3	128	9,226.5
1,000 to 24,999	3,621	12,624.2	3,768	12,858.8	3,862	13,244.0	3,972	13,737.9
100 to 999	17,365	5,441.5	17,964	5,600.5	18,328	5,707.9	18,851	5,921.3
1 to 99	82,803	1,581.7	85,719	1,608.6	87,614	1,648.6	90,111	1,709.1
Total	103,919	27,910.9	107,580	29,009.2	109,929	29,494.8	113,062	30,594.8

¹ Estimated.

Source: Pension Benefit Guaranty Corporation.

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TABLE 11.—MULTIEMPLOYER PLANS WITH PBGC COVERAGE BY SIZE OF PARTICIPANT GROUP,
1980-83

[Participants in thousands]

Size of participating group	1980		1981		1982		1983 ¹	
	Plans	Participants	Plans	Participants	Plans	Participants	Plans	Participants
100,000 or more	9	2,194.3	9	2,180.1	10	2,294.4	10	2,304.7
25,000 to 99,999	45	2,112.5	44	2,087.5	43	2,017.7	42	2,026.8
1,000 to 24,999	904	3,844.3	940	3,944.6	921	3,901.4	920	3,918.9
100 to 999	1,117	503.2	1,116	492.9	1,183	514.4	1,182	516.7
1 to 99	336	13.5	321	13.4	308	13.5	308	13.6
Total	2,471	8,667.8	2,480	8,718.5	2,465	8,741.4	2,462	8,780.7

¹ Estimated.

Source: Pension Benefit Guaranty Corporation.

TABLE 12.—MULTIEMPLOYER PLANS WITH PBGC COVERAGE BY SIZE OF PARTICIPANT GROUP,
1980-83

[Participants in thousands]

Size of participating group	1980		1981		1982		1983 ¹	
	Plans	Participants	Plans	Participants	Plans	Participants	Plans	Participants
25,000 or more	1	30.2	3	1,181.1	0	0.0	0	0.0
1,000 to 24,999	72	207.9	64	169.9	73	176.7	62	167.2
100 to 999	563	148.8	464	128.9	630	182.7	534	172.8
1 to 99	14,488	160.0	13,161	136.2	10,116	128.0	8,575	121.1
Total	15,124	547.0	13,692	1,616.3	10,819	487.4	9,171	461.1

¹ Estimated.

Source: Pension Benefit Guaranty Corporation.

VIII. SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

The recent popularity of defined contribution plans is raising questions as to the direction the private pension system is heading. On the surface it appears that employers are shying away from defined benefit plans, but what is in fact happening is a greatly increased activity in defined contribution plans both in terms of formations and terminations. While more than three times as many defined contribution plans have been formed since ERISA than in the comparable period before it, the number of defined benefit plans formed in both periods has remained fairly constant.

Most pension specialists believe that defined contribution plans offer less retirement income security than defined benefit plans. While there are distinct differences in the mechanics of the two types of plans, it is problematical whether one type is clearly best suited for all workers. From an employer's perspective the rules, requirements and complexities of ERISA and the tax code come down harder on defined benefit plans. Moreover, not only are companies liable for paying vested pension benefits, the Financial Accounting Standards Board (FASB) is considering a requirement that would place unfunded pension liabilities on corporate financial statements. These factors could discourage the formation and continuation of defined benefit plans. On the other hand, recent tax laws have been encouraging the growth in defined contribution plans.

From an employee's perspective, defined benefit plans reward long service workers who remain with the same company for the bulk of their careers. But not all workers fit this working pattern. Many short service, and younger workers would do better under a defined contribution plan than under a defined benefit plan.

The private pension system has rebounded from the initial ERISA "shock." Studies have shown that economic and other factors have played a more significant role in the decision to adopt or terminate a plan than ERISA. Net plan growth hit an all time high in 1982 before taking a major dip in 1983. This growth suggests that the deep recession in 1982 and the passage of TEFRA had a large impact on the decision of companies to adopt or continue a plan. Time will tell if pension plan growth will again take off.

Most large companies already have defined benefit plans. Many of them also have supplementary defined contribution plans. On the other hand, most small companies have defined contribution plans. Since companies without pension plans are primarily small employers with fewer than 100 employees, pension growth would likely be among defined contribution plans. However, the high failure rate of many small businesses during their formative years makes them unlikely candidates for adopting any type of pension plan. When a plan is adopted, a defined contribution plan would probably be more compatible with their needs.

Defined contribution plans have been growing at a remarkable speed. Assets in these plans are expected to grow at a faster rate than in defined benefit plans. While defined contribution plans accounted for about 28 percent of all pension assets in 1983, they are expected to account for about 35 percent of all assets in the year 2000, according to the Department of Labor. Considering all the data, however, it appears that defined benefit plans will remain the dominant source of pension income. Notwithstanding the sheer increase in the number of defined contribution plans, a question arises as to whether supplementary defined contribution plans will eventually cause companies to "freeze" their defined benefit plans. In other words, will companies shift emphasis in the future to defined contribution plans when they update or improve their retirement benefit package? While unions will likely continue to support defined benefit plans, it is noteworthy that one of the Nation's largest collectively bargained multiemployer plans—the Western Conference of Teamsters—is contemplating shifting to a defined contribution type plan.

The future direction of private pension plans will be strongly shaped by tax policy and ERISA requirements. The Treasury Department has proposed in its 1984 Tax Reform Proposal to the President to eliminate the current 401(k) provisions in favor of an expanded Individual Retirement Account (IRA) program. Moreover, the Treasury Department proposes to establish consistent and uniform policy that will apply to all retirement plans. Currently, the tax treatment of both contributions to retirement plans and subsequent distributions is different depending upon the particular type of plan.

Most of the growth in defined contribution plans has been with plans that supplement a basic defined benefit plan already offered by an employer. About 60 percent of the active pension plan participants are covered by defined benefit plans alone. As shown on page 33, an additional 26 percent are covered by a defined benefit and one or more supplemental defined contribution plans. This leaves a little over 13 percent of active pension plan participants who rely solely on a defined contribution plan as the principal source of pension income. Currently over 70 percent of the assets in defined contribution plans are estimated to be in plans that supplement defined benefit plans (see page 35).

In conclusion, while defined contribution plans grow in importance, defined benefit plans remain the mainstay of the private pension system. Growth in the defined contribution area comes largely from plans that supplement existing defined benefit plans.

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